To: **SOCIAL SECURITY ADVISORY BOARD**
Subject: **2015 OASDI Trustees Reports update**
Date: **July 27, 2015**

This memo provides a brief update on the 2015 Trustees report, released on July 22, 2015. Although statutorily required to be submitted on April 1, this year's report was delayed in part because of the additional work needed to integrate recently enacted changes to physician reimbursement in Medicare and the President's executive actions on immigration. Chief Actuary Steve Goss will provided a detailed briefing to the Board on the Trustees Report projections at the July 28th Board meeting.

<u>The size of the current Social Security program</u>
At the end of 2014, the OASDI program was providing benefits to about 59 million people (1 million more than in 2013): 42 million retired workers and their dependents, 6 million survivors of deceased workers, and 11 million disabled workers and their dependents. During the year, 166 million people paid payroll taxes on earnings covered by Social Security (about 3 million more than in 2013).

Total expenditures (including administrative expenses) were $859 billion ($36 billion more than in 2013), while total income including $98 billionn in interest was $884 billion ($29 billion more than in 2013). As a result, during 2014 the OASDI trust funds grew from $2.732 trillion at the end of 2013 to 2.764 trillion at the end of 2014. Social Security's total expenditures, however, have exceeded *non-interest income* of its combined trust funds since 2010; and the Trustees estimate that Social Security expenditures will continue to exceed *non-interest income* throughout the 75-year projection period.

<u>Actuarial deficit over the next 75 years</u>
The actuarial deficit represents the average amount of change in revenue or expenditure that is needed throughout the valuation period in order to achieve actuarial balance. [1] **On a combined basis the OASDI trust funds have a 75-year actuarial deficit of 2.68 percent of taxable payroll, smaller than last year's projection of 2.88%** but roughly the same as projected in 2012 and 2013. Closing the entire deficit over the 75-year projection horizon would require the equivalent of an immediate increase in the payroll tax rate of 21.1 percent, (2.62 percentage points[2]) or an immediate cut in benefits of 16.4 percent applied to all current and future beneficiaries[3], or by some combination of the two.

As Figure 1A illustrates, although projected deficits in the last four years have been higher than in the past, the long-range deficit projections have remained relatively stable over the past 20 years. Between 1994 and 2011 the projected combined deficit remained within a narrow range, fluctuating between 1.70 and 2.23 percent of taxable payroll. Figure 1B illustrates a similar

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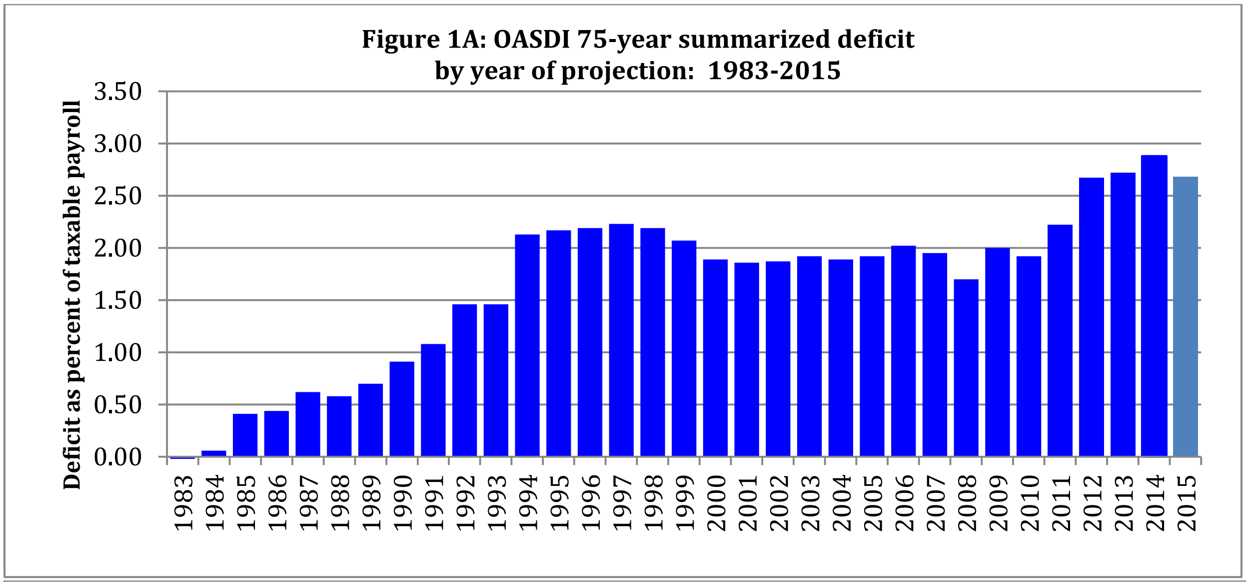
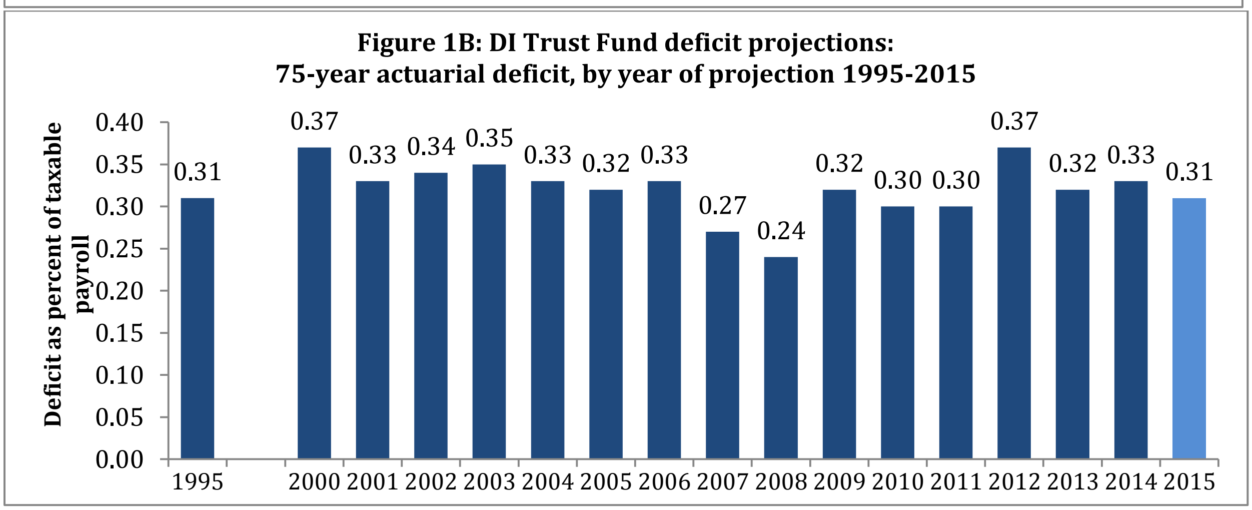
[1] The OASI deficit is 2.37 percent of taxable payroll and the DI deficit is 0.31 percent.
[2] This change would increase the payroll tax from the current 12.40 percent to 15.02 percent.
[3] The cut would be 19.6 percent if the reductions were applied only to those who become initially eligible for benefits in 2015 or later

situation for the DI trust funds. The currently projected long-range deficit is only very slightly below the average deficit projected in Trustees reports from 2000 through 2015 of 0.32 percent of taxable payroll.





<u>Trust Fund reserve depletion dates</u>

On a theoretical combined basis, the OASDI trust funds are projected to deplete in 2034, one year later than last year's report. After reserve depletion, tax revenue would be sufficient to pay 79 percent of scheduled benefits in 2034 and 73 percent in 2089. The **OASI trust fund reserves are projected to be depleted in 2035, one year later than in last year's report**. At that time tax revenues would be sufficient to pay 77 percent of scheduled OASI benefits. The Trustees project the **DI trust fund reserves will be depleted at the end of 2016 (read "December"), the same as estimated last year.** At the point of trust fund reserve depletion, tax revenues will be sufficient to pay 81 percent of scheduled DI benefits. Given the status of the DI trust funds the Trustees state:

> Twenty years after the tax reallocation that was intended to create the time and opportunity for such reforms, the Trustees reiterate the call for legislation to achieve long-range financial stability, though there are fewer reform options available now than there were in the 1990s, when the

projected date of reserve depletion was more distant. Given the short time now remaining before projected DI Trust Fund reserve depletion, such legislation may now need to include some reallocation of resources between the two trust funds. Reallocation of resources in the absence of substantive reforms might, on the other hand, serve to delay DI reforms and much needed corrections for OASDI as a whole.

Figures 2A and 2B illustrate the evolution of projected dates of trust fund depletion for the theoretical combined OASDI trust funds and the DI trust fund respectively.

Figure 2A: Projected number of years until OASDI trust fund exhaustion, by year of projection 1985-2015

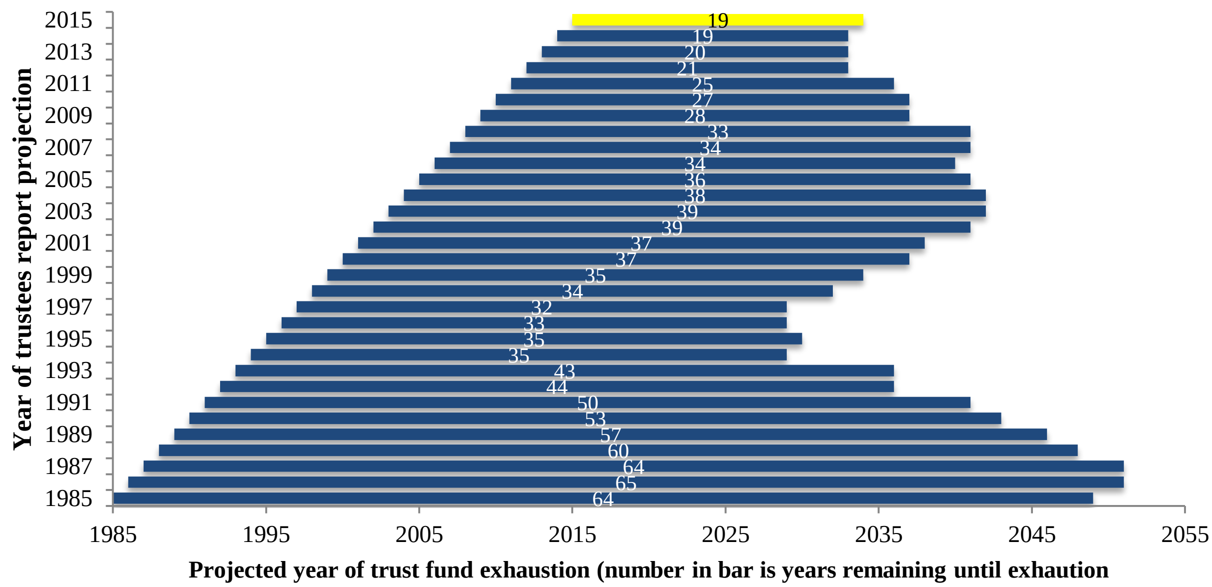
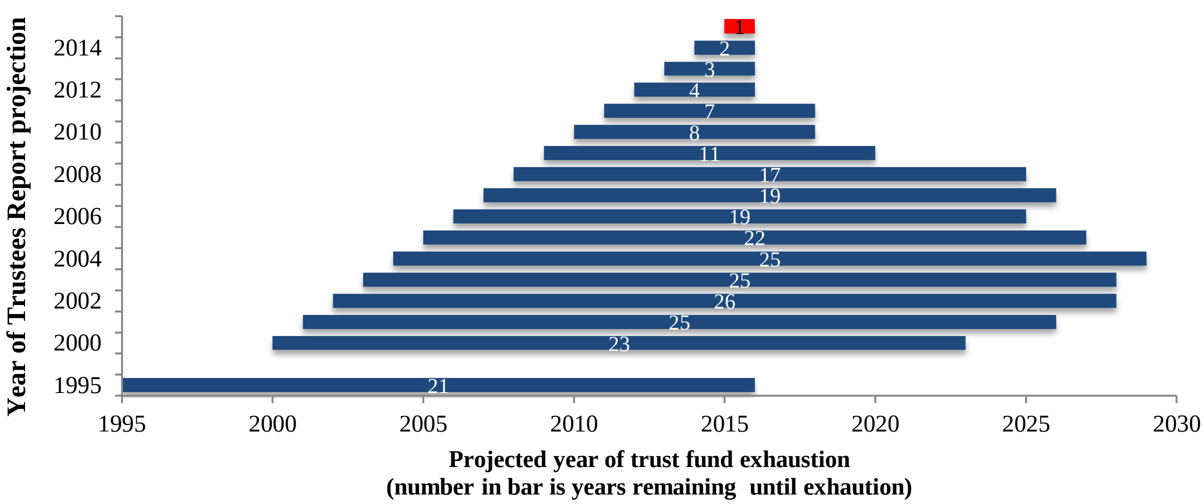


Figure 2B: Projected years until DI trust fund exhaustion, by year of projection



<u>Reasons for Changes from Last Year</u>

If no changes were made since last year's report, the mere fact that the projection horizon moved one year further out into the future would add 0.06 percent of taxable payroll to the projected 75-year deficit. From 2014 to 2015 all changes to assumptions, methods and data accounted for a net *reduction* of 0.20 percent of taxable payroll in the 75-year deficit.

- The assumed level of immigration increased slightly due to an estimate of the impact of the President's Executive actions on immigration which forestall deportation of some other than legal immigrants. The Trustees assume some of these individuals will be able to attain legal status in the future. The net effect on the trust funds is slightly positive.
- The assumed rate of real wage growth increased slightly due to an assumption that the share of total compensation that comes in the form of taxable wages will increase. This change is made to be consistent with the assumption from the Medicare Trustees report that total health care costs will increase more slowly in the future than previously assumed. In other words, while total compensation growth remains unchanged, the share of that comes in the form of employer sponsored health insurance and is therefore not subject to OASDI payroll taxes will increase more slowly.
- Updated economic data--including a higher level of projected average taxable earnings relative to the average wage index--led to a projection of higher future revenue and therefore improvement in the projected deficit.
- Recent data showing slightly slower improvements in mortality rates also improves the projected deficit, while lower recent fertility rates worsen the projected deficit.
- Methodological changes of a detailed nature--including changes in the projections of earnings for future cohorts of newly entitled worker beneficiaries, lower projected insured rates of some immigrants, and increased projected income from taxation of benefits—improved the projected deficit.